THE DISABILITY INSURANCE POLICY

By A. P. Woodward,

Secretary, Accident Department, Connecticut General Life Insurance Company.

Accident insurance had its inception in England with the Railway Passengers Insurance Company of London in 1849, and, as the name of the company implies, this form of insurance was suggested by the perilous adventure of a journey on the then new railroad train. From this limited coverage it has been gradually extended to include practically all accidental bodily injuries. Insurance against loss from sickness or disease is more recent in its development. In the last thirty years it has grown in volume from a premium income of approximately $2,000,000 to approximately $33,000,000 annually.

This insurance, which is generally termed a disability insurance policy, is primarily a contract of indemnity, though in so far as it provides any payment in the event of death, it involves the principles of a limited life insurance. Apart from this feature, the policy is a contract of insurance against material or pecuniary loss on the part of the insured. To entitle the policyholder to benefits under the policy he must sustain a loss either of some member of the body as, for instance, a hand or foot, or of his time; pain or inconvenience does not come within the scope of the insurance.

Carrying the principle of indemnity into practice, the underwriter in issuing policies sees to it that the amount which he promises to pay for any fixed loss bears a reasonable relation to the financial condition of the applicant, and when the policy is of a form providing for the payment of a stipulated amount per week or per month for loss of time that such amount is fixed at something less than the average weekly or monthly earnings of the applicant. The word "earnings" is used in distinction to income to define that part of the insured's income resulting directly from his labor and to exclude such part of it as results from invested funds through sources not dependent upon the application of his time.

THE APPLICATION

Before attempting an examination of the policy contract, consideration must be given to the application for the insurance, which is the foundation upon which the policy rests. This application, either in the form of questions and answers or by statements of the applicant, is designed to give to the underwriter such information as will identify the insured and enable him to carry out the applicant's wishes should loss occur; to fix the premium charge by determining to what extent the applicant is exposed to the hazard of injury; and, lastly, to determine whether the applicant is in normal or abnormal physical condition.

It is assumed that the possibility of injury from accidents "common to all," *i.e.*, accidents about the dwelling, on the streets and highways, while riding in public conveyances and in recreation, is practically the same for all classes of applicants. The difference in the hazard of any risk lies in the occupational exposure, and some idea of how widely they differ may be gained from the premium tables varying from $5 to $30 per unit of insurance. The standard manual lists over 6,000 occupations divided into ten classifications containing practically all occupations with the exception of a few special hazards connected with mining and railway operation. Individuals in the same business or occupation differ widely in their exposure to injury and, therefore, it becomes necessary to determine not only the occupation but the duties of the particular applicant in that occupation. Investigation in a case in which the applicant described his occupation as "General Manager of the ——— Railroad Company, executive duties and traveling," disclosed that the ——— Railroad was fourteen miles long and that the General Manager regularly collected tickets, handled baggage and express goods, and occasionally operated a gasoline motor car in which passengers were carried—I cite this case as an illustration of the need for knowing more than the title of an occupation to determine in what work the applicant is engaged. Difference in occupation is not taken into account in determining the premium charge for disability due to sickness.

Disability insurance is issued without medical examination, the underwriter relying upon the insured's statement of his age, height, weight, such medical or surgical treatment as he may have

received, and any condition of bodily or mental infirmity from which he is suffering.

A copy of the application is made part of the policy contract, and under it the applicant agrees that the right to recover on any policy of insurance issued upon the basis of the application shall be barred in the event that any one of its statements, material either to the acceptance of the risk or to the hazard assumed by the company, is false; or in the event that any one of its statements is false and made with intent to deceive.

THE POLICY

Having briefly examined the application, we may now turn to the policy itself. There is no standard form of disability insurance policy created by legislative enactment as in some lines of insurance, but custom has gradually developed what may for practical purposes be considered a standard policy, and for purposes of this analysis we will assume that we have before us such a typical policy providing $7,500 principal sum and $25 weekly indemnity.

What is the nature of this insurance? The answer is found in the insuring clause and perhaps no single proposition of insurance law is so generally misunderstood as that applicable to its proper interpretation.

At the outset it becomes apparent that two causes of loss are contemplated—loss due to bodily injuries and loss due to sickness or disease with a sharply drawn line of demarcation between them. Furthermore, it is attempted to cover only a part of the personal losses—death, and loss of hands, feet, eyes, etc., from but one of several ways by which they may occur. The obvious explanation of the misunderstanding of the insuring clause is the endeavor to express this limitation in a few words, and in the very nature of things it is not surprising that border-line cases constantly arise. It is necessary to consider this policy as though there were two distinct contracts of insurance, one insuring against injuries and the other against diseases. We will examine the accident feature first.

For upwards of fifty years the enacting clause, or insuring clause, of the accident insurance policy has provided benefits in the event of loss "resulting from bodily injuries effected directly and independently of all other causes through external, violent and

accidental means." Owing to the construction put by the courts upon the words "external" and "violent," they are of little, if any, importance in determining liability in any case, and there is a marked tendency on the part of underwriters to omit them from the present-day policies so that we may, therefore, consider this clause as though it read "against loss resulting from bodily injuries effected directly and independently of all other causes through accidental means." Two distinct propositions are embodied in this insuring clause: first, it must be shown that the insured suffered a bodily injury effected through accidental means; and second, that the bodily injury so effected was the sole cause of the loss. Much of the misunderstanding has arisen because of failure to keep this dual requirement in mind and to properly apprehend the meaning of accidental means.

In one of the earliest cases construing an accident policy the United States Supreme Court laid down this rule:

> that if a result is such as follows from ordinary means voluntarily employed in not an unusual and unexpected way, it cannot be as a result effected by accidental means, but if in the act which precedes the injury, something unforeseen, unexpected, unusual occurs which produces the injury, then the injury has resulted from accidental means.

The occurrence of an injury does not justify the conclusion that it was effected through accidental means. It may be the unforeseen or unlooked for consequences of an intentional act, or it may be the consequences of an unintentional or unlooked for act, and it is only the latter which come within the scope of the policy. Perhaps an illustration may make this distinction clearer. In a recent decision it appeared that the insured was sitting in an arm-chair and for the purpose of demonstrating his strength, placed his hands on the arms of the chair and raised and lowered his body. This unaccustomed exercise brought about a rupture of a blood vessel. The court concluded that though the injury was clearly an accident, it was not effected by accidental means because the insured did what he intended to do in the way designed and the only unexpected occurrence in connection with the incident was the unfortunate result.

Having determined that bodily injuries are effected by accidental means, it becomes necessary to revert to the second of the two limitations of the insuring clause and show that these injuries

alone produced the loss. If the injury starts a train of circumstances and the final link is a disorder which ordinarily would be termed a disease, liability attaches under the policy, for the injury must be regarded as the sole actuating cause of the loss; for instance, death due to pneumonia following a severe blow on the chest. If, on the other hand, the insured is suffering from a disease or bodily impairment or abnormality which, coöperating with the injury, produces the loss, liability does not attach. The principle involved is simple enough, but its practical application, involving as it does, a determination of fact, requires close and subtle reasoning and is a source of frequent misunderstanding.

Having brought the happening within the limitations of the insuring clause, let us examine the various benefits provided for the resulting loss. For loss of life and for certain specific losses that could not otherwise be definitely and satisfactorily measured in dollars and cents at the time of their occurrence, the principal sum or some proportionate part is payable. This typical policy provides for loss of

Life, Both Hands, Both Feet, Sight of Both Eyes, Hand and Foot, Hand or Foot and Sight of an Eye	$7,500
Hand, Foot	3,750
Sight of an Eye	2,500
Thumb and Index Finger	1,875

The loss and its cause must be so linked together as to reasonably exclude the possibility of a subsequently acquired infirmity complicating or in part causing the loss. If the injury is such as prevents the insured from performing all of the duties of his occupation from the date of its occurrence and during the continuance of this condition one of these specific losses occurs, the benefit provided for that loss is payable. If, however, the injury should not produce an immediate disability, it is necessary to link cause and effect together in point of time so as to reasonably protect

both the insured and the insurer. Sufficient time must elapse to allow the injury to develop and for such surgical attention as it may necessitate, and on the other hand the period of time must be sufficiently short to exclude any question of doubt as to the cause of the loss and at the same time make the contract definite and certain. Ninety days is the time fixed by practically all policies for the occurrence of this loss following an injury unless, as just pointed out, the loss and the injury are continuously connected by a period of disability.

Only a small percentage of injuries result in loss of life or of some member of the body. The large percentage cause loss of time for which benefits are payable. The policy defines two classes—total disability and partial disability.

This typical policy reads as follows:

> Or if such injuries alone, independently and exclusively of all other causes, shall from the date of the accident wholly and continuously prevent the insured from performing any and every kind of duty pertaining to his occupation. . . .

This provision lays down three conditions by which each given set of facts are to be measured to determine the respective rights of the insured and the insurer. It defines total disability as that condition during which the insured is unable to carry on any of his business duties. If such disability exists, did it immediately follow the injury? If such disability exists and it immediately followed the injury, is it continuous? Again the limited nature of the insurance becomes obvious and we see that only a certain kind of disability is within the coverage of the policy. Assuming that such a disability is established, this typical policy provides a benefit of $25.00 weekly, payable as long as the disability lasts, be it for a few days, a few months, or possibly the balance of the insured's life.

Partial disability, as the name implies, is something less than total disability and is defined by the policy as an inability to perform "one or more important daily duties pertaining to his occupation." The same limitation exists here as in the provision regarding total disability, though this condition of partial disability may either immediately follow the injury or follow a period of total disability and, instead of being payable during the duration of disability, is limited to a period which is very generally fixed at

twenty-six weeks, providing, under this typical policy, a benefit of one-half the total, or $12.50 a week.

Statistics compiled from a large number of cases show that fractures, dislocations and similar injuries produce an average period of disability. A schedule of such injuries as permit a clear definition with the benefits payable, determined by applying to the amount of the policy this average period of disability, is incorporated in the contract. The insured has the option of taking this benefit, payable immediately in a lump sum, or of awaiting the termination of his disability and taking the amount stipulated per week under the policy.

Beginning in 1909 there has been a series of legislative enactments relating to accident and health insurance which fortunately have been practically uniform in the several states. Uniform phraseology of certain "standard provisions" is prescribed and these provisions must be incorporated in every policy issued.

A clear understanding of the nature of the accident insurance policy requires an examination of one of these provisions generally referred to as the pro-rate provision, which reads in part as follows:

> In the event that the insured is injured after having changed his occupation to one classified by the insurer as more hazardous than that stated in the policy, or while he is doing any act or thing pertaining to any occupation so classified, except ordinary duties about his residence or while engaged in recreation . . . . the insurer will pay only such portion of the indemnities provided in the policy as the premium paid would have purchased at the rate but within the limits so fixed by the insurer for such more hazardous occupation.

In analyzing the application I laid some stress upon the insured's occupation and a description of the duties performed by him, and I called attention to the classification of risks by occupations. The "Standard Provision Law" recognizes this control of classification by occupation to the extent of saying to the parties that even though they have agreed upon a policy providing a certain benefit, yet if the insured has met with injury through exposing himself to greater probability of injury than was contemplated when the policy was written, the benefits payable shall not be the sum for which the policy was written, but only such proportionate part as is commensurate with the increased exposure.

Turning to the provisions for loss due to sickness, we find that loss of life, hand, foot, sight, or any member of the body is elim-

inated, and the benefits limited to loss of time. The language used in the insuring clause is "against disability from sickness or disease," contracted during the term of the policy and requiring treatment by a physician.

As in the accident feature, two degrees of disability are recognized—total and partial. The definition of total disability is the same. Partial disability is defined somewhat differently as an inability to perform "one or more important daily duties pertaining to his occupation, sustaining a loss of at least one-half his business time each day." This partial disability must also follow total disability.

The payment of benefits is limited to a period of fifty-two weeks for either total disability or total and partial disability combined. In this typical policy either $25 or $12.50 a week is payable.

If the disability is of a permanent nature, upon proof that it has existed for twelve months and resulted in the loss of the use of hands, feet or sight, an additional benefit equal to forty-eight times the weekly benefit for total disability is payable.

Old age is recognized as a factor causing disability from sickness and an increase in the premium table is made beginning with age fifty-one.

Losses of any description due to war, military or naval service, aviation, and sickness sustained in the tropics, are specifically excluded in the coverage of the policy.

We have considered the essential elements of the disability insurance policy. Competition has taken the form of increased benefits rather than a reduction of premium rates. Accordingly we find this typical policy providing for the payment of double benefits if such injuries are sustained (a) while a passenger in or on a public conveyance provided by a common carrier for passenger service (including the platform, steps or running board of railway or street railway cars); or (b) while a passenger in a passenger elevator (excluding elevators in mines); or caused (c) by the burning of a building while the insured is therein at the commencement of the fire; or (d) by the collapse of the outer walls of the building while the insured is therein; or (e) by a stroke of lightning; or (f) by a cyclone or tornado; or (g) by the explosion of a steam boiler.

Provision is made for the payment of certain fixed amounts

varying from $5 to $100 should the injuries or sickness necessitate one of a number of operations enumerated in the schedule of operations contained in the policy; and if the injuries or sickness require hospital treatment, the payment of the expenses incurred, not exceeding $12.50 a week for twenty weeks. If the injuries do not cause a loss for which indemnity is payable, but do require surgical treatment, provision is made for the payment of the surgeon's bill, not exceeding $25.

Also provision is made to place the insured in the care of relatives or friends, provided such expense does not exceed the sum of $100, should he by reason of injury or illness be unable to communicate with them and the company be notified of his condition.

The policy also sets forth the procedure to be followed in giving notice of injury, payment of benefits and changes in the insurance.

Special needs of individual insurance are usually taken care of by endorsement upon the policy or by means of riders embodying special provisions attached to and made part of the policy.

THE CONCLUSION

In conclusion I am tempted to indulge in a brief speculation as to the future development of this branch of insurance. The present-day disability policy is a product of a slow evolution which has not always been logical. Originally designed to cover only railroad accidents, gradually the various limitations have been removed from it until today it covers all accidents, and the supposed danger of railroad travel has in the light of underwriting experience diminished to the point where double benefits are paid for such accidents. Why the insured's time should be worth twice as much if he is disabled through meeting an injury while riding on a train as it is if he fell down stairs in his own dwelling and sustained the same injury is difficult to explain.

Properly viewed, disability insurance is but a part of that enormously important branch of insurance which, for want of a better name, may be called personal insurance to distinguish it from commercial and property insurance. This personal insurance includes loss due to death, to disability from any cause, and against the certain infirmities of old age.

Assuming that a person has responsibilities for which provision must be made in the event of death, why should he pick out one of

the forms by which his life may be terminated and insure against that to the exclusion of all others? Accidents cause approximately 9 per cent of all deaths in the United States, while pneumonia causes approximately 14 per cent but we do not insure against death by pneumonia alone, though apparently it would be more logical to do so. The death hazard is properly covered by life insurance, and there seems no clear justification for a form of insurance covering it from the limited causes we have been considering.

Nor is there any real justification in endeavoring to distinguish between so-called accident disability and so-called sickness disability. Frequently it is well-nigh impossible to distinguish one from the other or to tell where one ends and the other begins. To the insured who is disabled, the loss is precisely the same. This also applies to the benefits for the loss of hands, feet or sight. What the insured needs is compensation for this loss regardless of what may have occasioned the loss.

Much waste occurs in the payment of an enormous number of trivial losses, losses that are not in any sense of the word real losses. Waste has to be paid for, and in the insurance business there is but one source from which the wherewithal to make payments can come and that source is the policyholder. The insurance company does not produce, its sole function being to collect and distribute. Therefore, some change is desirable to effect a saving of the amounts paid for these trivial claims of a few days' duration.

Disability insurance is sold—not bought, and its sale requires the entire time of a large body of highly trained and efficient salesmen. The modern disability insurance is a term contract running for a period of twelve months at most and frequently only for six or three months. Here again is a source of enormous waste—waste of time of these salesmen in going back each three or six or twelve months to arrange with their clients for insurance, not new insurance or more insurance necessitated by changed conditions on the part of the client, but the same insurance which the client carried during the preceding term. That waste also has to be paid for and again it is the policyholder who does the paying. Changes must be adopted that will make the insurance permanent in form and enable the salesman to devote his energies to the development of new business. These changes cannot be wholly effected by the

insurance companies. Unfortunately, state supervision of insurance has not always been guided by wisdom and foresight and regulations apparently justified by temporary expediency prove stumbling-blocks to future development. What is needed is not less supervision but supervision which, safeguarding the interests of the policyholder, is flexible enough to allow for such changes as are requisite to our economic and social development. The fullest measure of success can result only from an intelligent coöperation between the insurance departments and the underwriter.